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Alternative Methods for Developing Bradley Burns and Special Taxing Jurisdiction Fees



Development of the Bradley Burns (BB) and Special Taxing Jurisdiction (STJ) fees is a Two-Step Process

- Step 1 - Allocate the total Sales Tax Program cost to the State, BB, and STJs.
- Step 2 - Allocate the total BB and STJ cost determined in Step 1 to each BB or STJ jurisdiction.

Step 1 - Allocating the total Sales Tax Program cost to the State, BB, and STJs

Existing Model

- The existing model identifies direct costs for BB and STJs. The remaining shared cost is allocated to the State, BB, and STJs based on revenue.
- Under the existing model, the 2004-05 allocation is:

State	\$ 204 million (72%)
BB	\$ 36 million (13%)
STJs	\$ 41 million (15%)

Alternative 1 - Existing Base plus % change in Sales Tax Program Cost

- Under this alternative, the Estimated 2004-05 BB and STJ fees become the Base level. Each succeeding year the Base levels would be adjusted to reflect the % change in the Sales Tax Program cost.
- For new STJs, the Base level would be established as a percentage of revenue.

Alternative 2 - Based on # of Permits

- Under this alternative, the cost of the Sales Tax Program is allocated to the State, BB, and STJs based on the number of permits and sub-outlets.

	<u># Permits</u>
State	795,204
BB	1,048,413
STJs	1,469,198

Alternative 2 - Based on # of Permits (cont. 1)

- The number of permits for BB is higher than the number of permits for the state because each taxpayer sub-outlet must be processed separately for BB.
- The number of permits for STJs is higher than the number of permits for the state because each STJ within the same city/county must be processed separately.

Alternative 2 - Based on # of Permits (cont. 2)

- Using this approach, the Estimated 2004-05 allocation is:

State	\$ 67 million (24%)
BB	\$ 90 million (32%)
STJs	\$ 124 million (44%)

Alternative 3 - Based on Revenue

- Under this alternative, the cost of the Sales Tax Program is allocated to the State, BB, and STJs based on total revenue received.
- Using this approach, the 2004-05 allocation is:

State	\$222 million (79%)
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BB	\$ 37 million (13%)
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STJs	\$ 22 million (8%)
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Alternatives 4A, 4B, 4C - Based on cost by Sales Tax element

Each element of the Sales Tax Program is allocated on a pattern representative of that element's cost.

- The Registration element is allocated on Total Revenue
- The Audit element is allocated on Audit Revenue

Alternatives 4A, 4B, 4C - Based on cost by Sales Tax element (cont.)

- The Collection element is allocated on Accounts Receivable revenue.
- The Returns element is allocated based on the ratio of the number of lines on the return that benefit the State, BB, and STJs. Three different approaches were considered.

Alternative 4A - Shared Line Approach for Returns Element

- Under the Shared Approach, lines on the return specifically associated with the State, BB, or STJ workload are assigned to each entity. The remaining generic lines on the return are assumed to benefit all three entities and are allocated equally among all three.

Alternative 4B - Marginal Line Approach for Returns Element

- Under the Marginal Approach, only those lines on the return specifically associated with BB or STJ workload are assigned to them. All remaining generic lines on the return are assumed to be State workload.

Alternative 4C - Revenue Line Approach for Returns Element

- Under the Revenue Approach, lines on the return specifically associated with the State, BB, or STJ workload are assigned to each entity. The remaining generic lines on the return are assumed to benefit all three entities and are allocated to each based on total revenue.

Alternative 4A - Based on cost by Sales Tax element (Shared Returns Line Approach)

- Using this approach, the 2004-05 allocation is:

State	\$176 million (63%)
BB	\$ 60 million (21%)
STJs	\$ 45 million (16%)

Alternative 4B - Based on cost by Sales Tax element (Marginal Returns Line Approach)

- Using this approach, the 2004-05 allocation is:

State	\$206 million (73%)
BB	\$ 45 million (16%)
STJs	\$ 30 million (11%)

Alternative 4C - Based on cost by Sales Tax element (Revenue Returns Line Approach)

- Using this approach, the 2004-05 allocation is:

State	\$197 million (70%)
BB	\$ 48 million (17%)
STJs	\$ 36 million (13%)

Summary of Alternatives (%)

		% of Cost			
		State	BB	STJs	Total
	Existing Model	72%	13%	15%	100%
Alt 1	Base + Cost Change	72%	13%	15%	100%
Alt 2	Number of Permits	24%	32%	44%	100%
Alt 3	Total Revenue	79%	13%	8%	100%
Alt 4A	Element (Shared)	63%	21%	16%	100%
Alt 4B	Element (Marginal)	73%	16%	11%	100%
Alt 4C	Element (Revenue)	70%	17%	13%	100%

Summary of Alternatives (Cost)

		Cost (\$1,000s)			
		State	BB	STJs	Total
	Existing Model	\$ 204	\$ 36	\$ 41	\$ 281
Alt 1	Base + Cost Change	204	36	41	281
Alt 2	Number of Permits	67	90	124	281
Alt 3	Total Revenue	222	37	22	281
Alt 4A	Element (Shared)	176	60	45	281
Alt 4B	Element (Marginal)	206	45	30	281
Alt 4C	Element (Revenue)	197	48	36	281

Step 2 - Allocating the total BB cost and the total STJ cost to each BB and STJ jurisdiction.

Existing Model

- The existing model allocates the total BB cost to each BB jurisdiction based on revenue.
- The existing model allocates the total STJ cost to each STJ jurisdiction based on various workload factors.

Alternatives to allocate BB and STJ costs to each jurisdiction

- Alternative A - Allocate both BB cost and STJ cost to jurisdiction based on Revenue.
- In the past, the STJs were also allocated on revenue. However, the Auditor General recommended using workload factors.

Alternatives to allocate BB and STJ costs to each jurisdiction (cont. 1)

- Alternative B - Allocate BB and the STJs to jurisdiction based on the number of Permits.

Alternatives to allocate BB and STJ costs to each jurisdiction (cont. 2)

- Alternative C - Allow BB and STJ local authorities to determine how their total cost should be allocated among their jurisdictions.

Detail of Alternatives to allocate cost to each BB and STJ

	BB	STJs
Existing Model	Revenue	Workload Factors
Alternative A	Revenue	Revenue
Alternative B	Permits	Permits
Alternative C	BB Input	STJ Input

SUMMARY

- Changes to the existing model would require a change in the law.
- Some alternatives result in significant changes to the cost associated with the State, BB, or STJs.
- With over 50 new STJs on the November ballot, a simpler fee structure is desirable.

SUMMARY (cont.)

- Additional proposed alternatives will be considered until October 5, 2004.
- Recommendations to the Board will be presented at the November 4, 2004 Board meeting.
- The final report is due to the Chair of the Joint Legislative Committee on December 1, 2004.